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SUBJECT: CROATIA SPINS VICTORY ON BALKAN FREE
TRADE PROPOSAL

REF: ZAGREB 135

11. (SBU) Summary and Comment: Croatian PM Ivo Sanader scored domestic political points over the past two weeks in the controversy surrounding proposals for a Western Balkans Free Trade Agreement. Although the concept of a regional free trade agreement is one that Croatia has nominally supported within the framework of the Stability Pact, a poorly-informed press inflamed public opinion with suggestions that Croatia could be coerced into a new Yugoslav federation and that its EU accession would be slowed. Sanader, taking full advantage of this deficit of facts, used the opportunity to push a long-standing Croatian position that any free trade agreement in the region be based on an enlarged Central European Free Trade Agreement (CEFTA). Although the GOC is still awaiting official reaction from Brussels, the Croatian public and press have praised the Prime Minister's "defense" of Croatia's national interests. End Summary.

Press Defines the Story

12. (SBU) News that the EU reiterated its long-standing call for a Western Balkans Free Trade Agreement in late January fell on fertile ground in the fiercely competitive Croatian market for sensationalist headlines. Unburdened by the fact that work on a free trade agreement has been ongoing within the Stability Pact, much less that these countries represent Croatia's best export markets, the press seized only on imagined similarities with the former Yugoslavia. Headlines proclaimed that the EU had called for the creation of a new Yugoslavia. Beneath this was speculation about unspoken political motives, appeasement of Serbia and even a "Balkan EU." The chattering class in Zagreb largely concurred that such a proposal would surely stall Croatia's advance to the EU.

Government Lets the Pot Boil

13. (SBU) The government did little to set the record straight. Politicians of various stripes seized the opportunity for posturing, vowing never to countenance the creation of a new Yugoslavia. By and large, there was little discussion of the merits of a free trade agreement, of the benefits of a new agreement versus modification of existing ones, or of whether or not a new agreement would benefit

Croatia as the strongest economy among the likely members.

CEFTA as Compromise

14. (SBU) Sanader used this controversy artfully, vowing that he would never permit the creation of another Yugoslavia and making his own "counterproposal." Sanader actually proposed nothing new, but following a meeting with Stability Pact Coordinator Busek in Zagreb on February 2, announced that he had advocated an enlargement of CEFTA as an alternative to a new free trade agreement. Enlarging CEFTA has been a long-standing Croatian position, partially as a means of pushing back on pressure to create a new "Western Balkan" structure. The Croatian fear of being shackled to the other former Yugoslav republics is deep-seated, as are suspicions that its EU accession could be stalled. CEFTA, by this logic is more palatable, mostly by virtue of the fact that it is not "Balkan" and that most of its previous members have or are about to find their place within the EU.

Defender of the National Interest

15. (SBU) The press has remained interested in this story over the past two weeks and has been largely complimentary of the government and its handling of the issue. Several stories have praised Sanader for pushing back on the EU's proposal and defending Croatia's national interest - a particularly strong compliment, as the government is generally criticized for being

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too compliant toward Brussels. In the meantime, the government has used every opportunity to reiterate its proposal for CEFTA enlargement, all the while waiting for a reaction from the EU. Sanader is expected to raise the issue again during the February 15 visit of EU Commissioner Barroso.

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